

**Draft Minutes of the 51<sup>st</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

**Held via Teleconference on April 17, 2012**

**Voting Members**

Present:

Arnold Schilder (Chairman)  
Dan Montgomery (Deputy Chair)  
Arch Archambault  
Jean Blascos  
Jianshen Chen  
Valdir Coscodai  
Cédric Gélard  
Jon Grant  
Gert Jönsson  
Merran Kelsall  
William Kinney  
Annette Köhler  
Caithlin Mc Cabe  
Brendan Murtagh  
Marc Pickeur  
Tomokazu Sekiguchi  
Bruce Winter  
Abdullah Yusuf

**Technical Advisors**

Sue Almond (Mr. Murtagh)  
Brantley Blanchard (Ms. Mc Cabe)  
Wolf Böhm (Ms. Köhler)  
Ricardo DeLellis (Mr. Coscodai)  
Marek Grabowski (Mr. Grant)  
Jonas Hällström (Mr. Jönsson)  
Hiram Hasty (Mr. Kinney)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Mr. Sekiguchi)  
Richard Mifsud (Ms. Kelsall)  
Jon Rowden (Mr. Winter)  
Isabelle Tracq-Sengeissen (Mr. Gélard)  
Denise Weber (Mr. Montgomery)  
Rick Wood (Mr. Archambault)  
Jacques Vandernoot (Mr. Pickeur)

Apologies:

Pervez Muslim (Mr. Yusuf)  
Ge Zhang (Mr. Chen)

**Non-Voting Observers**

Apologies: Linda De Beer (IAASB Consultative Advisory Group (CAG) Chairman), Juan Maria Arteagoitia, Norio Igarashi

**Public Interest Oversight Board (PIOB) Observers**

Present: Gonzalo Ramos and Susana Novoa

**IAASB Technical Staff**

Present: James Gunn (Technical Director), Beverley Bahlmann, Keesha Campbell, Kathleen Healy, Brett James, Diane Jules, Joanne Moores and Ken Siong

## 1. Opening Remarks

Prof. Schilder welcomed the participants to the meeting, noting that the necessary quorum of Board members had been met. He extended a special welcome to the public observers from, among others, the Canadian Institute of Chartered Accountants, US Public Company Accounting Oversight Board (PCAOB), and members of the IAASB CAG Working Group on Auditor Reporting.

Apologies were noted from Ms. de Beer and Messrs. Arteagoitia, Igarashi, Muslim and Zhang.

Prof. Schilder noted that the objective of the meeting was to consider recommendations of the Task Force in relation to key aspects of the Auditor Reporting project relating to auditor commentary, which includes reporting on going concern and other information. He explained that there would be no voting on the call.

## 2. Going Concern, Other Information,<sup>1</sup> and Entity-Specific Auditor Commentary

Mr. Montgomery introduced the topic, providing an overview of the Task Force's proposals. He explained that the Task Force's proposed auditor conclusions in relation to going concern and other information are forms of auditor commentary that might usefully be considered covered by the broad objective for auditor commentary. He highlighted the European Commission's (EC) key policy proposal regarding going concern as an important consideration in the Task Force's deliberations. He also highlighted a need for the IAASB to explore clarification of the guidance on material uncertainties in ISA 570<sup>2</sup> as part of its consideration of the going concern proposal, and to engage with the International Accounting Standards Board (IASB) in due course in this regard. Finally, he noted the importance of dialogue with the PCAOB in relation to its project on going concern.

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting material.

### GOING CONCERN

The IAASB expressed support for the direction that the Task Force is taking with respect to the proposed wording of the auditor's conclusion in relation to going concern (addressing both the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified), and related contextual information. There was also support for the Task Force's analysis of the associated impediments, and acknowledgment of the need to further explore clarification of the concept of material uncertainty to minimize potential user confusion. Amongst other matters, IAASB members also commented as follows:

- There is a risk that users may misinterpret the conclusion as implying that the auditor has performed more work on going concern than is actually done or required to be done in accordance with the ISAs, and may also result in confusion as to whether the auditor is drawing a conclusion in relation to the entity's future viability. In this regard, it was suggested that including an explanation of the purpose of the auditor's work under ISA 570 may assist in mitigating this risk.

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<sup>1</sup> The term "Other Information" refers to other information included in documents containing audited financial statements that falls within the scope of ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

<sup>2</sup> ISA 570, *Going Concern*

- Careful consideration should be given to whether to allow national auditing standard setters (NSS) to tailor the wording of the conclusion, as too much flexibility would lead to a diversity of conclusions. In this regard, it was noted that the concept of going concern is often embedded in law or regulation. Accordingly, it may not be possible to fully standardize the wording.
- Consideration should be given to the appropriateness of the proposed disclaimer that the auditor is not providing a guarantee as to the entity's future viability, as this may be perceived as risk management for the firms. In addition, there was a caution against using the word "guarantee."
- Definitions of the concept of going concern vary around the world. Accordingly, consideration should be given to whether the use of the term "foreseeable future" within the contextual information is appropriate, as it may not be universally understood. In this regard, it was suggested that if this term were to be used, a note should be included to indicate that the precise period will depend on the applicable financial reporting framework.
- Consideration should be given to whether the description of management's responsibilities should come before the conclusion.
- Consideration should be given to fully aligning the proposed wording with International Accounting Standard (IAS) 1,<sup>3</sup> as some of the wording appears to be only partially drawn from IAS 1.

Mr. Grant, Chair of the Going Concern and Other Information Subcommittee, noted that the Task Force will be further considering whether the concepts of the appropriateness of management's use of the going concern assumption and the entity's ability to continue as a going concern are at the same thresholds or are intended to have a similar meaning. He also indicated that the Task Force, in its discussions earlier in the day, had found merit in splitting the conclusion into two parts under different subheadings addressing separately the going concern assumption and material uncertainty, as this would more clearly delineate the two concepts and also facilitate respondents' comments.

The IAASB asked the Task Force to further refine its proposals taking into account the Board's comments.

#### OTHER INFORMATION

The IAASB broadly supported the Task Force's proposed wording for the description of the auditor's responsibilities and the auditor's conclusion regarding other information, and agreed that the wording would be appropriate under extant ISA 720. Amongst other matters, it was emphasized that it would be important to make clear the purpose of the auditor's work on the other information to avoid potential user misunderstanding, and that this work is performed in the context of the audit of the financial statements. It was also suggested that further consideration be given to the placement of the conclusion where law or regulation requires additional auditor reporting with respect to the other information.

In addition, an IAASB member questioned whether the basis of the conclusion (i.e., "based on reading") might be perceived as providing assurance on the other information. It was suggested that, if this were the case, there would be cause for concern as reading represents the lowest possible level of work effort.

The IAASB asked the Task Force to consider these comments further.

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<sup>3</sup> IAS 1, *Presentation of Financial Statements*

#### ENTITY-SPECIFIC AUDITOR COMMENTARY

IAASB members generally supported the direction of the Task Force's proposed objective and requirement relating to entity-specific auditor commentary. Amongst other matters, IAASB members commented as follows:

- Careful consideration of the proposal would be needed as there is a risk that in providing auditor commentary, the auditor could inadvertently be providing information about the entity that should be the responsibility of management to provide. In addition, auditor commentary should not be a substitute for a modified opinion when that would be appropriate in the circumstances.
- Solely focusing on "matters of audit significance" and not matters of significant management judgment may not meet the needs of investors.
- Auditor commentary could be seen as providing individual opinions, or separate assurance, on the matters discussed. Accordingly, the illustrative report should make it clear that the auditor's opinion on the financial statements as a whole is not modified with respect to the matters included in auditor commentary.
- It would be useful in the Invitation to Comment (ITC) to describe how the ISAs address the concept of "users of the financial statements," namely that users are considered as a group and that auditor commentary cannot be expected to meet the needs of all individual users. The IAASB agreed that users of the auditor's report are the same as users of the financial statements.
- Detailed guidance would need to be developed during the standard-setting phase to support the principles-based nature of the requirement related to entity-specific auditor commentary. In particular, there would be a need to specify matters to be considered by the auditor, for example, significant risks and areas of higher assessed risks of material misstatement, and explain why transparency about the audit approach would be useful to investors.
- Consideration should be given to providing guidance about the level of detail for auditor commentary, and the need to consider the relative importance of matters included in auditor commentary in determining presentation in the auditor's report. In this regard, it was cautioned that auditor commentary should not be a lengthy list of matters; rather, consistent with the objective, it should focus on a few key important issues.
- Further clarification about how Emphasis of Matter (EOM) paragraphs would be included in the broader category of auditor commentary would be useful.
- Consideration should be given to separating reporting on going concern and other information from auditor commentary, as reporting on going concern and other information is more likely to include standardized language.
- Consideration should be given to requiring the auditor to include an explicit statement in the auditor's report when the auditor does not judge it necessary to provide auditor commentary. There may be a need for a corresponding documentation requirement to assist regulators and inspectors in enforcing principles-based requirements. These mechanisms would help ensure that auditors would appropriately apply professional judgment in determining whether, and about which matters, to include auditor commentary.

The IAASB asked the Task Force to further refine the proposals in light of the discussion.

### *Scope of Application*

The majority of the IAASB supported the Task Force's proposal to require entity-specific auditor commentary for public interest entities (PIEs). However, the IAASB recognized the need to more fully understand whether there would be impediments to using the definition of PIEs in the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants*. In this regard, it was noted that discussion with NSS would be particularly useful. The IAASB noted the following for the Task Force's further consideration:

- Consideration should be given to whether there would be merit in requiring auditor commentary for all entities, in particular, if the EOM concept remains part of auditor commentary, given that the concept of auditor commentary is scalable based on the complexity and size of the entity. However, there would be a need to balance doing so against concerns raised by members of the small- and medium-sized entity (SME) community that the costs of requiring auditor commentary for SME audits may outweigh the benefits.
- There may be benefit in first requiring auditor commentary for listed entities only and allowing the continued use of EOM and Other Matter paragraphs, or the provision of auditor commentary on a voluntary basis, for audits of non-listed entities if considered necessary in the engagement circumstances. For example, there may be merit for auditor commentary on issues related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern, which could apply to all entities rather than just listed entities or PIEs.
- The ITC should note the range of options considered by the IAASB in arriving at its recommendation (i.e., require for all entities, listed entities, or PIEs), and explain the IAASB's deliberations in relation to PIEs to solicit feedback as to the value and impediments of requiring auditor commentary for this type of entities.

### WAY FORWARD

Mr. Montgomery thanked the Board for its constructive comments, noting that they would be further considered by the Task Force.

### **3. Next Meeting**

The next meeting of the IAASB was scheduled for April 24, 2012 via teleconference.

### **4. Closing Remarks**

Prof. Schilder thanked the participants for their contributions. He then closed the meeting.